



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION 6
1445 ROSS AVENUE, SUITE 1200
DALLAS TX 75202-2733

AUG 01 2013

Mr. J.T. Lane
Assistant Secretary
Louisiana Department of Health and Hospitals
628 North 4th Street
Baton Rouge, LA 70802

Dear Mr. Lane:

Enclosed is the final State Fiscal Year 2012 Drinking Water State Revolving Fund base annual Program Evaluation Report. The report is based on the State's FY 2012 Drinking Water Revolving Loan Fund (DWRLF) Annual Report, on-site discussions and file reviews at the State office on January 14-18, 2013, and the Environmental Protection Agency's (EPA) completion of our standardized national checklists of program evaluation questions. We appreciate your DWRLF program's assistance in this review process.

The program is commended for complying with section 1452 of the Safe Drinking Water Act and 40 CFR 35.3570(c), the capitalization grant, as well as the operating agreement conditions. While some issues were identified with LDHH's accounting process, EPA is encouraged by the program's positive progress that is demonstrated by the cumulative financial indicators.

If you have any questions regarding the report, please feel free to contact me at (214) 665-7100, or have your staff contact Mr. Troy Hill, Associate Director of the Assistance Programs Branch, at (214) 665-7110.

Sincerely,

A handwritten signature in dark ink, appearing to read "William K. Honker", is written over a faint, larger signature in red ink.

William K. Honker, P.E.

Director
Water Quality Protection Division

Enclosure

Cc (w/encl.): Jenny Wilson, LDHH,
DWRLF Manager

DRINKING WATER STATE REVOLVING FUND
2012 BASE PROGRAM END OF YEAR REPORT

STATE OF LOUISIANA

July 1, 2011 – June 30, 2012

Prepared by EPA Region 6

Assistance Programs Branch

I. Introduction

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the State's Fiscal Year 2012 (SFY 2012) operation of the Louisiana Drinking Water Revolving Loan Fund (DWRLF) Program, and to document whether the State has complied with the requirements of section 1452 of the Safe Drinking Water Act (SDWA) and 40 CFR 35.3570(c).

II. Review Results and EPA Recommendations

This annual program review covered the SFY 2012 operation (July 1, 2011 to June 30, 2012), as well as previous years, and was conducted at the Louisiana Department of Health and Hospitals (LDHH) office. The review was conducted on January 14-18, 2013 and covered up to active grant FS-996968-14. We reviewed two project files: (1) Avoyelles Parish Ward 1; and (2) City of Winnfield.

Notwithstanding the following observations, the Environmental Protection Agency (EPA) found that LDHH is in compliance with section 1452 of the Safe Drinking Water Act (SDWA) and 40 CFR 35.3570(c), its capitalization grant conditions, as well as the operating agreement conditions.

A. Programmatic Review Results and Recommendations

1. Grant Administration

Along with their continuous commitment to provide communities in Louisiana with both clean and affordable drinking water, the DWRLF program attributes their program's continued success to several program decisions. Their 2009 decision to couple base program funds with American Recovery and Reinvestment Act (ARRA) funds and their effective use of 'additional subsidization' continue to lure potential applicants to the program.

In SFY 2012, the LA DWRLF program closed six binding commitments totaling \$18,290,000, awarded seven loans totaling \$26,290,000 and had nine project initiations. Although the program closed four grants the previous state fiscal year, the disbursements though satisfactory for the state of the program were not enough to close the \$25.6 M grant from FFY 2010.

EPA Commendation: EPA congratulates the LA DWRLF program for continuing the positive pace of their program.

2. Disadvantaged Business Enterprise (DBE)

At a previous on-site review in early 2012, it was determined that LDHH had not been submitting its quarterly MBE/WBE/DBE reports in a timely manner. After assigning the role to a DWRLF team member in 2012, all quarterly DBE reports have been timely submitted. The program continues to submit reports timely.

EPA Commendation: EPA commends the LDHH for their revised DBE process so that the reports are provided timely to Region 6.

3. Staffing

EPA was pleased to be informed by LDHH that payroll charges to the federal grant are made on actual personnel activities versus budget estimates. Based on transaction testing and interviews with LDHH staff, EPA noticed that a significant increase in staff is being charged to the DWSRF set-asides. Multiple employees were paid for 1000+ hours during the pay period of April 21, 2012 –May 4, 2012. Employees should only be paid for the time worked on the SRF program with hours charged to the appropriate pay period and set-asides. EPA staff did verify from interviews and cross checking with workplans and LDHH spreadsheets that their activities are billed to DWRLF grant(s) appropriately; in order to avoid comingling with the Public Water Supply Supervision grant. As the LDHH Drinking Water Program continues to use more DWSRF set-asides, it is of the utmost importance that accurate records are maintained to document activities and expenditures to the respective set-asides.

The review also determined that excess rent amounts may have been charged to the grant. Rent amounts were charged to the grant from before March 2, 2012, when the DWRLF program moved from the third floor to the first floor. Unoccupied or excess rate costs seem to also be charged to the grant. Rent allocation may need to be corrected for space being used by the DWRLF program in SFY 2012.

EPA Commendation: EPA commends LDHH for charging actual versus budgeted personnel to the grant. EPA also commends the program for completing biweekly timesheets.

EPA Recommendation: Continue monitoring and documenting work carried out by DWRLF staff to verify that their activities are billed to the appropriate set-aside.

EPA Recommendation: Resolve excessive payroll charges to grant.

EPA Recommendation: Resolve rent charges to grant.

***State's Response:** LA DWRLF staff will continue to monitor and document work carried out by DWRLF staff to verify that activities are billed to appropriate set asides. The excessive payroll charges were to account for PWSS staff that should have charged to the grant for their activities and had not; consequently, an adjustment had to be made. EPA coincidentally picked the week this was done as the test week. DWRLF staff continues to work with the administration to resolve the rent charges to the grant.*

***EPA Response:** EPA will continue to monitor payroll and rent charges, as part of our annual SRF on-site review process.*

B. Engineering Review Results and Recommendations

1. Oversight of Projects in the post-award phase

LDHH maintains adequate oversight of all Base and ARRA-funded projects through construction completion to ensure that they adhere to all applicable grant conditions. An example of this was communication during the year from the DWRLF program to EPA regarding the United Water System's failure to establish a separate loan account. An audit report discovered that the system had failed to comply with this loan condition. However, no funds were misspent. The program kept EPA informed of the matter and procedures have been amended to make sure that this condition is understood and adhered to by future loan recipients.

As has been noted in previous reviews, LDHH had not been including the EPA Davis-Bacon term and condition in the loan agreement as EPA requires. However, the program has demonstrated to EPA that the Davis Bacon language that is in the grant agreement is what was followed by the loan recipients based on reference to the act in the loan agreement and by virtue of regular engineering review. Inspection checklists include a section on Davis Bacon requirements. Current loan agreements now include language from the grant.

As federal travel funds continue to dwindle, EPA staff will need web access to DWRLF engineering and projects files remotely. EPA understands that LDHH may have concerns due to the Health Privacy Protection Act and R6 reviewers appreciate the DWRLF engineers for setting up a temporary site to review a limited selection of files. However, a more efficient method for EPA review should be developed.

***EPA Recommendation:** Establish a site or system that allows EPA access to engineering and project files.*

State's Response: *The DWRLF program does not have any Health Privacy Protection Act (HPPA) concerns with sharing all of our project information with EPA. We are not sure why HPAA is mentioned in this letter as a limiting factor and would like that comment removed.*

Additionally, as a result of LA DWRLF staff reductions and other administrative and technological limitations, it was all LA DWRLF could do to set up the FTP Site system (on short notice from EPA) that successfully worked to achieve the goal of providing EPA all of the requested project files electronically that EPA needed in order to conduct their review of our program without having to have all of their staff travel to Louisiana. LA DWRLF Engineers and Financial staff spent at least a week of their time scanning project documents just for the few 'limited' projects that EPA reviewed as part of this PER. To provide electronic copies of all documentation for every LA DWRLF project via a website or some other method would require a tremendous amount of FTEs to set-up, scan documents, and maintain in an organized fashion. To put a contract into place for someone else to come in and take care of this would also take a considerable amount of time (years) to both set-up and accomplish, in addition to still requiring a large amount of regular LA DWRLF Staff FTEs to provide instructions and maintain. While LA DWRLF agrees that it would be nice for EPA to have access at any time to any project files, LA DWRLF does not agree with the time nor the financial expenditure that would be required to set up a 'better' system wherein EPA would have access to ALL LA DWRLF project files, especially considering that EPA would not have the time to peruse most of these electronic documents. There is a reason that EPA selects only a few projects out of the multitude of SRF projects available for conducting their PERs -- to review ALL SRF projects would be extremely cost-prohibitive and impossible to achieve. LA DWRLF currently HAS an APPROPRIATE system in place to provide EPA with electronic documents from our project files - the FTP Site System that was successfully used during this PER. At any time, EPA may request any project document and LA DWRLF will provide that document to them via this system. Lastly, LA DWRLF is currently making great strides towards asking for more of our documents to also be submitted electronically. LA DWRLF is also, itself, scanning and saving electronically more and more of its projects' Comment/Approval Letters, Checklists, and General Correspondence in an effort to become more and more 'electronically-available', as time and cost permit considering the current economic crisis facing the State and Nation.

EPA Conclusion: EPA acknowledges a misunderstanding regarding HPPA concerns that resulted during the on-site interviews. EPA acknowledges LDHH comments regarding establishing a site or system that would allow EPA access to engineering and project files.

C. Financial Review Results and Recommendations

1. File Reviews

The project files of Avoyelles Ward and Winfield were reviewed for financial compliance. Some of the information provided to EPA for the financial review of the assistance agreement was modified. Changes made to reimbursement requests, some at the request of the assistance recipient, were not explained.

EPA Recommendation: Changes to the legally binding instruments should be initialed to show that both parties were in agreement with the change. Changes to reimbursement requests should be clearly explained.

State's Response: *Louisiana DWRLF will make certain in the future that any changes to the legally binding instruments be initialed by both parties.*

EPA Conclusion: EPA selects random projects for file reviews annually. The documents in the files will be reviewed to ensure that all necessary signatures are present.

2. Cash Draws

The Annual Report shows that LDHH drew \$12,326,160 in federal DWSRF funds and provided \$2,724,338 in state match funds. LDHH informed EPA that the proportionality ratio, including the set-asides, for 2012 was 18.10%.

EPA Recommendation: Ensure that the set-asides are included in the proportionality ratio and that the DWSRF program is in compliance with program requirements.

LDHH uses the ISIS system for their financial transactions. The LDHH personnel that are officed in New Orleans are well versed in the ISIS system, as it pertains to the DWSRF program. As these knowledgeable individuals have met all retirement eligibility criteria; LDHH is encouraged to ensure that adequate knowledge transfer occurs prior to these individuals retiring.

The ISIS system works fine for reviewing cash draws from the "loan fund". However, EPA staff needs additional time to learn the intricacies of the ISIS system, before we can definitively state that the system works fine for "administrative draws". Accordingly, EPA's

comments pertaining to the ISIS system and administrative draws will be handled outside the scope of this PER.

The EPA reviewer was also unable to determine if DWSRF labor charges were based on estimates or actual charges incurred. Accordingly, this issue will also be reviewed and addressed outside the scope of the PER.

EPA Recommendation: Ensure that a succession plan is in place to ensure sufficient transfer of institutional knowledge if/when the DWSRF ISIS experts retire.

State's Response: *LA DWRLF will ensure that a succession plan is formulated so that the transfer of institutional knowledge takes place prior to retirement of the experienced staff.*

EPA Conclusion: EPA will monitor the efforts to create a succession plan in subsequent reviews.

On January 28, 2013, EPA regions were notified by the EPA Office of the Chief Financial Officer (OCFO), on behalf of the Office of Management and Budget (OMB), to conduct random SRF transaction tests. These random tests were to develop a national estimate of improper payments for the SRF programs. Two (2) draws were selected by OCFO and two (2) draws were selected by Region 6 EPA prior to the January on-site review. No erroneous payments were determined.

The following four (4) cash draws were reviewed as part of the base program review (* OCFO selected transaction):

- 1.) 6/26/12 in the amount of (-\$587,138.51), Grant # FS99696813; Corrective entry.
- 2.) * 2/21/12 in the amount of \$285,679.43, Grant # FS99696813; Comprehensive invoice.
- 3.) * 9/5/12 in the amount of \$34,794.05, Grant # FS99696813; Comprehensive invoice.
- 4.) 6/22/12 in the amount of \$283,165.00, Grant #FS99696814; Set-Aside invoices, spreadsheets. LDHH provided handwritten to explain how multiple spreadsheets substantiated the draw amount.

3. State Match

The state match is paid by a combination of match bonds and state funds. The Series 2006 Bond Issue has been amended several times to raise the ceiling on the indenture to allow LDHH to match the federal funds made available by 40 CFR 35.3550(g)(2). The SFY 2012

Annual Report provides a comprehensive accounting for the state match funds. However, it does not show the amounts of the bond issues nor how much of the bond issues were used for DWSRF match.

EPA Recommendation: If the DWSRF state match is obtained by bond issues used to fund multiple programs, LDHH should maintain a spreadsheet to total bond issue and the match funds proceeds. The spreadsheet should allocate match funds for each respective grant award.

State's Response: *The DWSRF state match is not used to fund multiple programs; it is only for state match for the SRF program. Exhibit X on page 56 of the Annual report is the spreadsheet maintained by the DWRLF which depicts the amount of state match required by grant payment and the amount of state match provided by the bond indentures.*

EPA Conclusion: EPA will continue to monitor LDHH's efforts to comply with the match requirements.

4. Compliance with Audit Requirements

The state audit had not been completed in time for the EPA review. However, EPA was informed by the program that based on initial feedback from the state auditors review in January of the DWRLF program, there would not be a finding citing the program for not complying with the single audit reviews. Therefore, EPA is pleased that the program is complying with the single audit compliance by assistance recipients.

EPA Follow-up: EPA will review the FY2012 audit upon receipt to verify that sufficient progress was made receiving and reviewing timely single audit reports.

5. Financial Indicators

The State reported the following cumulative financial indicators:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>National Avg.</u>
Return on Federal Investment	109%	111%	112%	178%
Assistance Provided as % of Funds Available	98%	80%	89%	90%
Disbursements as % of Assistance Provided	56%	80%	81%	85%
Net Return on Contributed Capital	0.6%	0.3%	0.8%	8.7%
Set-Aside Spending Rate	82%	79%	81%	82%

Data Source: SFY 2012 NIMS Report

The increase in "Assistance Provided as a % of Funds Available" is

evidence of increased attention to improving the efficiency of the program and expeditious use of federal funds. EPA anticipates that the "Disbursements as a % of Assistance Provided" will improve as a result of LDHH's progress in improving the pace of the program.

6. Analysis

The Louisiana DWRLF Program continues to effectively manage the DWSRF program. All items from the SFY 2011 review on April 10-13, 2012, were positively addressed by the program. EPA understands that the program's plan to leverage is now on hold; due to the several loans that were paid off early as a result of lower market rates, etc. EPA is optimistic that interest in the program will continue to rise as communities remain interested in the 'the additional subsidization.' EPA is interested in the program's intention to reduce their interest rate for the sake of keeping the LA DWRLF program competitive.

III. Disclosure Statement

We have conducted an annual review of the Louisiana DWSRF program for program year 2012 in accordance with EPA's Interim Final SRF Annual Review Guidance. All sections of the Guidance document were covered.

2012 Base PER Follow-up Action Items

Action Item	Responsibility	Due Date
1. Continue monitoring and documenting work carried out by DWRLF staff to verify that their activities are billed to the appropriate set-aside.	LDHH	Ongoing.
2. Resolve excessive payroll charges to grant.	LDHH	July 2013
3. Resolve rent charges to grant.	LDHH	July 2013
4. Establish a site or system that allows EPA access to engineering and project files.	LDHH	December 2013
5. Changes to reimbursement requests and legally binding instruments should be clearly explained and initialed to show that both parties were in agreement with the change.	LDHH	Ongoing.
6. Ensure that the set-asides are included in the proportionality ratio and the DWSRF program is in compliance with program requirements.	LDHH	Ongoing.
7. LDHH needs to ensure a succession plan is in place to transfer institutional knowledge of DWSRF ISIS experts.	LDHH	Ongoing.
8. Maintain a spreadsheet to total bond issue and the match funds proceeds	LDHH	Starting with SFY 2013 Annual Report.

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